

Message Text

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SUBJ: EX-IM BANK: FCIA COVERAGE FOR CATERPILLAR TRACTOR SALES OF
GRACE/INTERNATIONAL MACHINE
Y CO (INTERMACE), LA PAZ

1. LOCAL US PARTNER IN GRACE/INTERMACO, JAMES RAAF, HAS ASKED
EMBASSY ASSISTANCE WITH INCREASE IN FIRM'S FCIA COVERAGE, MOST OF
WHICH IS FOR CATERPILLAR TRACTOR SALES. RAAF SAYS FCIA RECENTLY
AUTHORIZED INCREASE IN COMMERCIAL COVERAGE FROM ABOUT US \$ 3
MILLION TO US \$ 5 MILLION, BUT ON PROVISION THAT PARTNERS INDI-
VIDUALLY AND SEVERALLY GUARANTEE ADDITIONAL COVERAGE. RAAF STATES
THAT COMPANY PARTNERS WILL NOT AGREE TO THIS AND THAT HE AS ONLY
US PARTNER, AND AS ONLY PARTNER WITH SUBSTANTIAL ASSETS IN US,
WOULD STAND TO LOSE MOST IN CASE OF DEFAULT.

2. EMBASSY WOULD APPRECIATE EX-IM/FCIA REVIEW OF WHETHER SUCH
STRINGENT REQUIREMENT IS NECESSARY. AS BACKGROUND, THE MIXED
PARTNERSHIP WHICH HOLDS GRACE AND INTERNATIONAL MACHINERY COMPANY
WAS RECENTLY CONVERTED TO A CORPORATION WHOLLY OWNED BY SIX PER-
SONS, INCLUDING RAAF, AND GRACE AND INTERNATIONAL MACHINERY (WHICH
ACTUALLY SELLS THE CATERPILLAR MACHINERY) ARE BEING MERGED AND WILL
HENCEFORTH SHOW ONE BALANCE SHEET. THIS GROUP BOUGHT OUT THE
ORIGINAL W R GRACE COMPANY IN 1973 WITH A LOAN FROM W R GRACE
ITSELF, NYICH WAS PAID BACK CONSIDERABLY AHEAD OF SCHEDULE. AT
THE TIME OF PURCHASE, W R GRACE WAS BARELY EARNING A PROFIT. RAAF
SAYS THAT EXPECTED PROFIT IN 1975 IS US \$ 2 MILLION.

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3. INTERMACO HAS ABOUT 90 PERCENT OF TRACTOR/BULLDOZER EQUIPMENT

MARKET IN BOLIVIA WITH SALES OF US \$ 12 MILLION ANNUALLY, ABOUT ONE-THIRD EACH FROM CATERPILLAR-U.S., CATERPILLAR-JAPAN, AND CATERPILLAR-BRAZIL. MAIN COMPETITOR IS JAPANESE FIRM COMATZA, WHICH STRENUOUSLY TRYING TO INCREASE MARKET SHARE. OTHER POTENTIAL COMPETITORS ARE FIAT-ARGENTINA AND MALIBU OF BRAZIL.

4. ACCORDING TO RAAF, GRACE/INTERMACE OUTSTANDING CREDIT FROM CATERPILLAR U.S. ALREADY HAS EXCEEDED FCIA CEILING, WITH EXCESS BEING HELD BY CATERPILLAR AT OWN RISK, BUT HE SAYS THERE IS A LIMIT TO AMOUNT OF CREDIT AT RISK CATERPILLAR WILLING TO HOLD.

5. IT APPEARS THAT FAILURE TO RESOLVE FCIA REQUIREMENTS WILL LIMIT CATERPILLAR-U.S SALES GROWTH IN BOLIVIA, WHICH A GROWING MARKET, ESPECIALLY BECAUSE OF ON-GOING AND PLANNED HIGH-WAY PROJECTS (SEE EMBASSY QUARTERLY ECONOMIC REPORT A-145 OF DECEMBER 8, 1975). THIS WILL GIVE COMPETITIVE OPPORTUNITY TO FOREIGN-BASED COMPETITORS, WHICH GRACE/INTERMACE HAS SUCCESSFULLY RESISTED UNTIL NOW. LATEST WTDR ON FIRM CONTAINED IN LA PAZ 8267. FIRM IS BOLIVIA'S LEADING MERCHANDISE COMMERCIAL ORGANIZATION AND HAS EXCELLENT REPEAT EXCELLENT REPUTATION.

6. ACTION REQUESTED: THAT EX-IM/FCIA REVIEW TERMS OF INCREASED COVERAGE ON GRACE/INTERMACO. RAAF ADVISES THAT CONSOLIDATED BALANCE AND PROFIT AND LOSS STATEMENTS FOR 1975 WILL BE AVAILABLE AFTER FEBRUARY 15, 1976 AND HE WILLING TO COME TO WASHINGTON TO DISCUSS SITUATION.
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